

EXHIBIT M
Part 2

**APPENDIX 1
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SAMPLE DESCRIPTION⁷

Sample Objectives:

Develop a nationwide estimate of the extent of the discount below AWP of actual invoice prices paid by Medicaid pharmacies for prescription drugs.

Population:

The primary sampling population was all states providing coverage of prescription drugs as an optional service under section 1905 (a) (12) of the Social Security Act (the Act). Section 1903 (a) of the Act provides for federal financial participation in state expenditures for prescription drugs.

Sampling Frame:

The primary sampling frame was a listing of all states and the District of Columbia, participating in the Medicaid prescription drug program except for Arizona and Tennessee. Arizona was excluded because the Medicaid drug program is a demonstration project using prepaid capitation financing and Tennessee was also excluded because of a waiver received to implement a managed care program for Medicaid.

Sample Design:

A stratified multistage sample was designed with states as the primary sample units and Medicaid pharmacy providers within those states as the secondary sample units. A stratified random sample of states was selected for the primary sample and a stratified random sample of pharmacies was selected for the secondary sample. A sample of eight pharmacies was selected from each of five strata. The five strata of pharmacies were rural-chain, rural-independent, urban-chain, urban-independent, and non-traditional (nursing home pharmacies, hospital pharmacies, home IV, etc.). Each pharmacy was assigned a month from 1999 for which to provide invoices. All pharmacies were initially assigned a month from January 1999 to December 1999 in a method designed to provide a cross-section of the 12-month period. However, some pharmacies were permitted to submit invoices from other months in 1999, as invoices were not available for the month originally assigned. The largest invoice from each of four different sources of supply

⁷ This sample was used for both of our original reports involving brand name and generic drugs (A-06-00-00023 and A-06-01-00053). The results of this sample then became the basis for the additional analyses we performed on drug reimbursement and reported in this current report.

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was requested. The sources of supply were identified as wholesalers, chain warehouse distribution centers, generic distributors, and direct manufacturer purchases. All invoice prices were compared to AWP.

Sample Size:

Eight states were selected for review from our primary sampling frame. Eight pharmacies were selected from each stratum of our secondary sample frame. Therefore, a maximum of 40 pharmacies was selected from each state. Of the 8 states, 2 states were selected from the universe of 10 sampled states plus the District of Columbia in our previous review. The remaining 6 states were selected from the remaining universe of 38 states.

Source of Random Numbers:

OAS statistical sampling software was used to generate the random numbers.

Characteristics to be Measured:

From our review of the pharmacy invoices, we calculated the percentage of the discount below AWP of actual invoice prices for all drugs on the invoices submitted.

Treatment of Missing Sample Items:

No spare was substituted for a pharmacy that refused to provide the requested information. If a stratum had eight or fewer pharmacies, we reviewed all pharmacies in that stratum. Spares were substituted for pharmacies that were not providers during the review period and for misclassified pharmacies. If a pharmacy did not send an invoice for a particular type of supplier, we assumed that the pharmacy did not purchase drugs from that supplier type during the assigned month.

Estimation Methodology:

We used OAS statistical software for stratified multistage variable sampling to project the percentage difference between actual invoice prices and AWP for each stratum, as well as an overall percent difference.

Other Evidence:

We obtained AWP from a pricing file received from the state of Florida.

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DETAILED SAMPLE RESULTS

SINGLE SOURCE DRUGS

Category	Universe of Pharmacies	Sample Pharmacies	Drug Prices Reviewed	Percent Below AWP	Percent Below AWP (Weighted)*
Rural-Chain	1,008	52	2,707	16.63	16.60
Rural-Independent	1,243	55	2,043	17.85	17.71
Urban-Chain	5,745	56	6,109	16.97	16.91
Urban-Independent	2,398	53	1,826	17.64	17.64
Non-Traditional	1,123	58	1,194	26.26	25.39
Overall (Exc. Non-Trad.)	10,394	216	12,685	17.19	17.15

ALL DRUGS WITHOUT FEDERAL UPPER LIMITS

Category	Universe of Pharmacies	Sample Pharmacies	Drug Prices Reviewed	Percent Below AWP	Percent Below AWP (Weighted)*
Rural-Chain	1,008	52	4,175	27.38	22.24
Rural-Independent	1,243	55	3,033	26.24	23.27
Urban-Chain	5,745	56	9,470	28.22	23.96
Urban-Independent	2,398	54	2,679	24.98	22.95
Non-Traditional	1,123	62	2,096	41.95	34.86
Overall (Exc. Non-Trad.)	10,394	217	19,357	27.16	23.48

* Weighted based on total dollars on each pharmacy's invoice(s).

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DETAILED SAMPLE RESULTS

MULTIPLE SOURCE DRUGS WITHOUT FEDERAL UPPER LIMITS

Category	Universe of Pharmacies	Sample Pharmacies	Drug Prices Reviewed	Percent Below AWP	Percent Below AWP (Weighted)*
Rural-Chain	1,008	52	1,468	43.63	37.87
Rural-Independent	1,243	54	990	42.35	38.38
Urban-Chain	5,745	56	3,361	47.03	45.56
Urban-Independent	2,398	54	853	38.68	37.10
Non-Traditional	1,123	58	902	56.75	56.49
Overall (Exc. Non-Trad.)	10,394	216	6,672	44.23	42.03

MULTIPLE SOURCE DRUGS WITH FEDERAL UPPER LIMITS

Category	Universe of Pharmacies	Sample Pharmacies	Drug Prices Reviewed	Percent Below AWP	Percent Below AWP (Weighted)*
Rural-Chain	1,008	51	1,431	69.36	73.56
Rural-Independent	1,243	55	737	71.06	75.97
Urban-Chain	5,745	56	2,740	73.08	78.70
Urban-Independent	2,398	53	667	71.56	76.63
Non-Traditional	1,123	48	617	76.00	79.55
Overall (Exc. Non-Trad.)	10,394	215	5,575	72.13	77.41

* Weighted based on total dollars on each pharmacy's invoice(s).

SAMPLE RESULTS BY STATE
SINGLE SOURCE DRUGS

APPENDIX 3

ST	Category	Universe Of Pharm.	Sample Pharm.	Drug Prices Reviewed	Percent Below AWP			
					Sample		90% Confidence Level	
					Mean	Standard Deviation	Lower Limit	Upper Limit
COLORADO	Rural-Chain	59	7	254	16.61	1.79	15.57	17.66
	Rural-Independent	73	6	189	17.38	0.94	16.78	17.99
	Urban-Chain	357	4	638	17.15	0.86	16.45	17.85
	Urban-Independent	128	6	218	16.85	0.64	16.43	17.27
	Non-Traditional	65	7	115	27.67	10.94	21.25	34.10
	Overall (Excl. Non-Trad.)	617	23	1,299	17.06	0.26	16.63	17.50
FLORIDA	Rural-Chain	137	7	195	15.83	2.56	14.28	17.38
	Rural-Independent	68	8	449	17.96	0.37	17.76	18.17
	Urban-Chain	2,052	8	986	17.81	0.34	17.62	18.01
	Urban-Independent	656	8	220	16.94	1.10	16.30	17.58
	Non-Traditional	363	8	84	29.75	14.56	21.38	38.12
	Overall (Excl. Non-Trad.)	2,913	31	1,850	17.53	0.13	17.31	17.74
INDIANA	Rural-Chain	187	7	414	17.13	2.18	15.80	18.46
	Rural-Independent	105	8	293	17.09	1.11	16.47	17.71
	Urban-Chain	608	7	949	17.60	1.61	16.60	18.60
	Urban-Independent	183	5	217	20.74	8.43	14.62	26.86
	Non-Traditional	178	8	159	26.13	9.17	20.91	31.34
	Overall (Excl. Non-Trad.)	1,083	27	1,873	18.00	0.73	16.80	19.20
MONTANA	Rural-Chain	57	6	255	15.65	1.70	14.57	16.73
	Rural-Independent	104	4	130	16.73	0.62	16.22	17.23
	Urban-Chain	37	8	753	16.34	0.98	15.84	16.84
	Urban-Independent	31	7	183	17.93	3.23	16.16	19.69
	Non-Traditional	47	8	179	26.23	7.67	22.16	30.29
	Overall (Excl. Non-Trad.)	229	25	1,321	16.56	0.26	16.12	16.99
TEXAS	Rural-Chain	225	7	236	16.21	1.68	15.19	17.24
	Rural-Independent	398	8	253	17.56	0.79	17.11	18.02
	Urban-Chain	1,682	8	514	15.96	3.82	13.75	18.18
	Urban-Independent	778	8	260	17.29	0.99	16.71	17.86
	Non-Traditional	214	7	158	23.86	12.98	15.92	31.79
	Overall (Excl. Non-Trad.)	3,083	31	1,263	16.52	0.74	15.30	17.74
WASHINGTON	Rural-Chain	81	6	232	16.65	1.12	15.93	17.37
	Rural-Independent	137	5	104	21.28	8.36	15.25	27.31
	Urban-Chain	512	6	359	15.97	0.91	15.36	16.58
	Urban-Independent	272	5	183	18.14	0.86	17.51	18.77
	Non-Traditional	123	6	92	24.62	5.52	21.00	28.23
	Overall (Excl. Non-Trad.)	1,002	22	878	17.34	0.55	16.44	18.24
WEST VIRGINIA	Rural-Chain	160	6	601	18.03	1.30	17.18	18.89
	Rural-Independent	119	8	292	17.45	0.48	17.18	17.72
	Urban-Chain	137	8	865	17.88	0.77	17.44	18.31
	Urban-Independent	62	7	307	17.77	0.89	17.25	18.29
	Non-Traditional	18	6	180	24.12	11.21	17.97	30.26
	Overall (Excl. Non-Trad.)	478	29	2,065	17.81	0.20	17.48	18.14
WISCONSIN	Rural-Chain	102	6	520	16.22	2.41	14.64	17.79
	Rural-Independent	239	8	333	17.54	0.59	17.20	17.87
	Urban-Chain	360	7	1,045	16.33	2.16	15.00	17.66
	Urban-Independent	288	7	238	18.13	1.32	17.32	18.94
	Non-Traditional	115	8	227	26.15	8.46	21.41	30.89
	Overall (Excl. Non-Trad.)	989	28	2,136	17.13	0.34	16.57	17.70

SAMPLE RESULTS BY STATE
SINGLE SOURCE DRUGS – WEIGHTED BY INVOICE DOLLARS

APPENDIX 4

ST	Category	Universe Of Pharm.	Sample Pharm.	Drug Prices Reviewed	Percent Below AWP			
					Sample Mean	Standard Deviation	Lower Limit	Upper Limit
COLORADO	Rural-Chain	59	7	254	16.10	1.51	15.22	16.98
	Rural-Independent	73	6	189	17.28	1.23	16.49	18.07
	Urban-Chain	357	4	638	17.05	0.95	16.28	17.82
	Urban-Independent	128	6	218	16.75	0.72	16.28	17.22
	Non-Traditional	65	7	115	25.90	9.79	20.15	31.65
	Overall (Excl. Non-Trad.)	617	23	1,299	16.92	0.29	16.45	17.40
FLORIDA	Rural-Chain	137	7	195	15.63	2.62	14.04	17.22
	Rural-Independent	68	8	449	17.79	0.45	17.54	18.03
	Urban-Chain	2,052	8	986	17.79	0.34	17.59	17.98
	Urban-Independent	656	8	220	17.00	1.14	16.34	17.66
	Non-Traditional	363	8	84	27.69	14.44	19.38	35.99
	Overall (Excl. Non-Trad.)	2,913	31	1,850	17.51	0.13	17.29	17.72
INDIANA	Rural-Chain	187	7	414	17.29	2.25	15.91	18.66
	Rural-Independent	105	8	293	16.95	1.09	16.34	17.56
	Urban-Chain	608	7	949	17.57	1.66	16.54	18.60
	Urban-Independent	183	5	217	21.10	9.57	14.16	28.04
	Non-Traditional	178	8	159	26.93	9.91	21.29	32.56
	Overall (Excl. Non-Trad.)	1,083	27	1,873	18.06	0.81	16.73	19.39
MONTANA	Rural-Chain	57	6	255	15.83	2.11	14.50	17.17
	Rural-Independent	104	4	130	17.05	0.70	16.48	17.62
	Urban-Chain	37	8	753	16.40	1.07	15.85	16.95
	Urban-Independent	31	7	183	18.19	3.82	16.10	20.27
	Non-Traditional	47	8	179	24.71	8.00	20.47	28.95
	Overall (Excl. Non-Trad.)	229	25	1,321	16.80	0.31	16.28	17.31
TEXAS	Rural-Chain	225	7	236	16.21	1.76	15.14	17.29
	Rural-Independent	398	8	253	17.13	0.72	16.71	17.54
	Urban-Chain	1,682	8	514	15.98	3.53	13.93	18.02
	Urban-Independent	778	8	260	17.20	1.08	16.58	17.82
	Non-Traditional	214	7	158	22.70	12.03	15.34	30.06
	Overall (Excl. Non-Trad.)	3,083	31	1,263	16.45	0.69	15.32	17.58
WASHINGTON	Rural-Chain	81	6	232	16.63	0.85	16.09	17.18
	Rural-Independent	137	5	104	21.32	8.34	15.29	27.35
	Urban-Chain	512	6	359	15.62	0.50	15.29	15.95
	Urban-Independent	272	5	183	18.34	1.15	17.50	19.18
	Non-Traditional	123	6	92	22.95	5.43	19.39	26.51
	Overall (Excl. Non-Trad.)	1,002	22	878	17.22	0.53	16.35	18.09
WEST VIRGINIA	Rural-Chain	160	6	601	17.95	1.16	17.18	18.72
	Rural-Independent	119	8	292	17.31	0.55	17.00	17.62
	Urban-Chain	137	8	865	17.78	0.73	17.37	18.18
	Urban-Independent	62	7	307	17.81	0.95	17.26	18.37
	Non-Traditional	18	6	180	23.55	11.49	17.25	29.85
	Overall (Excl. Non-Trad.)	478	29	2,065	17.72	0.18	17.42	18.02
WISCONSIN	Rural-Chain	102	6	520	16.15	2.35	14.62	17.68
	Rural-Independent	239	8	333	17.58	0.51	17.28	17.87
	Urban-Chain	360	7	1,045	16.24	1.87	15.09	17.40
	Urban-Independent	288	7	238	17.86	1.17	17.14	18.57
	Non-Traditional	115	8	227	26.81	11.36	20.44	33.19
	Overall (Excl. Non-Trad.)	989	28	2,136	17.03	0.30	16.53	17.53

SAMPLE RESULTS BY STATE
ALL DRUGS WITHOUT FULS

APPENDIX 5

ST	Category	Universe Of Pharm.	Sample Pharm.	Drug Prices Reviewed	Percent Below AWP			
					Sample		90% Confidence Level	
					Mean	Standard Deviation	Lower Limit	Upper Limit
COLORADO	Rural-Chain	59	7	370	22.50	4.25	20.02	24.98
	Rural-Independent	73	6	284	23.00	3.87	20.51	25.49
	Urban-Chain	357	4	1,040	29.60	2.64	27.44	31.76
	Urban-Independent	128	7	322	25.01	3.20	23.08	26.95
	Non-Traditional	65	8	190	42.90	19.53	32.27	53.53
	Overall (Excl. Non-Trad.)	617	24	2,016	27.19	0.83	25.82	28.55
FLORIDA	Rural-Chain	137	7	334	32.03	12.60	24.40	39.66
	Rural-Independent	68	8	600	23.41	3.30	21.61	25.22
	Urban-Chain	2,052	8	1,574	29.71	5.64	26.44	32.98
	Urban-Independent	656	8	317	24.36	2.74	22.78	25.94
	Non-Traditional	363	8	159	43.52	14.49	35.19	51.86
	Overall (Excl. Non-Trad.)	2,913	31	2,825	28.47	1.43	26.11	30.83
INDIANA	Rural-Chain	187	7	639	31.40	9.83	25.41	37.39
	Rural-Independent	105	8	455	24.51	3.72	22.43	26.59
	Urban-Chain	608	7	1,451	26.83	2.51	25.28	28.38
	Urban-Independent	183	5	340	28.54	9.04	21.98	35.10
	Non-Traditional	178	8	293	41.24	13.87	33.36	49.12
	Overall (Excl. Non-Trad.)	1,083	27	2,885	27.68	1.07	25.92	29.44
MONTANA	Rural-Chain	57	6	417	27.70	3.75	25.32	30.08
	Rural-Independent	104	4	186	24.58	3.15	22.03	27.12
	Urban-Chain	37	8	1,139	24.93	2.32	23.73	26.12
	Urban-Independent	31	7	270	26.41	5.67	23.31	29.51
	Non-Traditional	47	8	316	41.54	17.41	32.31	50.76
	Overall (Excl. Non-Trad.)	229	25	2,012	25.66	0.84	24.28	27.04
TEXAS	Rural-Chain	225	7	352	23.47	4.80	20.53	26.41
	Rural-Independent	398	8	398	26.08	2.81	24.46	27.69
	Urban-Chain	1,682	8	810	27.98	4.15	25.57	30.38
	Urban-Independent	778	8	397	26.08	5.18	23.08	29.07
	Non-Traditional	214	7	251	42.27	12.57	34.58	49.96
	Overall (Excl. Non-Trad.)	3,083	31	1,957	26.92	0.94	25.38	28.47
WASHINGTON	Rural-Chain	81	6	322	23.15	1.65	22.08	24.22
	Rural-Independent	137	5	153	30.72	10.96	22.81	38.63
	Urban-Chain	512	6	526	24.52	2.40	22.91	26.12
	Urban-Independent	272	5	240	22.76	2.30	21.08	24.44
	Non-Traditional	123	7	219	42.29	13.20	34.31	50.26
	Overall (Excl. Non-Trad.)	1,002	22	1,241	24.78	0.87	23.34	26.21
WEST VIRGINIA	Rural-Chain	160	6	951	29.22	3.11	27.17	31.27
	Rural-Independent	119	8	446	27.23	3.50	25.26	29.19
	Urban-Chain	137	8	1,333	28.94	2.64	27.45	30.43
	Urban-Independent	62	7	462	23.03	3.37	21.06	25.00
	Non-Traditional	18	8	279	32.21	11.05	27.42	37.00
	Overall (Excl. Non-Trad.)	478	29	3,192	27.84	0.59	26.86	28.82
WISCONSIN	Rural-Chain	102	6	790	25.00	6.98	20.46	29.54
	Rural-Independent	239	8	511	26.85	5.81	23.53	30.17
	Urban-Chain	360	7	1,597	26.59	2.62	24.97	28.20
	Urban-Independent	288	7	331	23.61	2.76	21.92	25.31
	Non-Traditional	115	8	389	40.45	8.70	35.57	45.33
	Overall (Excl. Non-Trad.)	989	28	3,229	25.62	0.73	24.42	26.83

SAMPLE RESULTS BY STATE
ALL DRUGS WITHOUT FULS – WEIGHTED BY INVOICE DOLLARS APPENDIX 6

ST	Category	Universe Of Pharm.	Sample Pharm.	Drug Prices Reviewed	Percent Below AWP			
					Sample		90% Confidence Level	
					Mean	Standard Deviation	Lower Limit	Upper Limit
COLORADO	Rural-Chain	59	7	370	18.50	2.24	17.19	19.81
	Rural-Independent	73	6	284	20.65	3.64	18.31	22.99
	Urban-Chain	357	4	1,040	26.28	3.36	23.53	29.02
	Urban-Independent	128	7	322	21.76	2.89	20.01	23.51
	Non-Traditional	65	8	190	37.84	22.21	25.74	49.93
	Overall (Excl. Non-Trad.)	617	24	2,016	23.93	1.01	22.27	25.59
FLORIDA	Rural-Chain	137	7	334	24.84	7.37	20.38	29.31
	Rural-Independent	68	8	600	20.18	2.08	19.04	21.31
	Urban-Chain	2,052	8	1,574	26.29	4.72	23.55	29.03
	Urban-Independent	656	8	317	22.41	4.29	19.93	24.89
	Non-Traditional	363	8	159	35.58	16.96	25.82	45.33
	Overall (Excl. Non-Trad.)	2,913	31	2,825	25.20	1.23	23.18	27.23
INDIANA	Rural-Chain	187	7	639	25.51	9.01	20.02	31.01
	Rural-Independent	105	8	455	21.30	3.30	19.46	23.14
	Urban-Chain	608	7	1,451	23.06	3.07	21.16	24.96
	Urban-Independent	183	5	340	25.08	10.48	17.47	32.69
	Non-Traditional	178	8	293	35.20	13.10	27.76	42.64
	Overall (Excl. Non-Trad.)	1,083	27	2,885	23.65	1.17	21.72	25.58
MONTANA	Rural-Chain	57	6	417	20.73	1.57	19.74	21.73
	Rural-Independent	104	4	186	22.35	3.62	19.43	25.27
	Urban-Chain	37	8	1,139	21.34	1.91	20.36	22.32
	Urban-Independent	31	7	270	23.16	4.76	20.55	25.76
	Non-Traditional	47	8	316	34.95	18.09	25.37	44.53
	Overall (Excl. Non-Trad.)	229	25	2,012	21.89	0.85	20.49	23.30
TEXAS	Rural-Chain	225	7	352	19.37	2.04	18.12	20.62
	Rural-Independent	398	8	398	21.78	1.74	20.78	22.77
	Urban-Chain	1,682	8	810	21.79	2.56	20.30	23.28
	Urban-Independent	778	8	397	24.40	5.85	21.01	27.79
	Non-Traditional	214	7	251	32.23	9.19	26.61	37.85
	Overall (Excl. Non-Trad.)	3,083	31	1,957	22.27	0.72	21.08	23.46
WASHINGTON	Rural-Chain	81	6	322	18.97	1.12	18.24	19.69
	Rural-Independent	137	5	153	25.18	8.59	18.98	31.38
	Urban-Chain	512	6	526	20.35	1.98	19.03	21.67
	Urban-Independent	272	5	240	20.68	1.64	19.49	21.87
	Non-Traditional	123	7	219	36.89	15.83	27.33	46.44
	Overall (Excl. Non-Trad.)	1,002	22	1,241	20.99	0.69	19.86	22.12
WEST VIRGINIA	Rural-Chain	160	6	951	24.10	2.77	22.27	25.93
	Rural-Independent	119	8	446	23.88	4.89	21.13	26.62
	Urban-Chain	137	8	1,333	25.88	5.58	22.73	29.02
	Urban-Independent	62	7	462	20.71	2.29	19.38	22.05
	Non-Traditional	18	8	279	25.05	10.55	20.48	29.62
	Overall (Excl. Non-Trad.)	478	29	3,192	24.11	0.79	22.81	25.41
WISCONSIN	Rural-Chain	102	6	790	21.57	5.06	18.27	24.86
	Rural-Independent	239	8	511	27.44	12.09	20.53	34.35
	Urban-Chain	360	7	1,597	23.77	2.39	22.30	25.25
	Urban-Independent	288	7	331	22.07	2.56	20.50	23.64
	Non-Traditional	115	8	389	35.69	12.92	28.44	42.94
	Overall (Excl. Non-Trad.)	989	28	3,229	23.93	1.12	22.09	25.78